

Strategy Research Project

FAIRNESS AND ETHICAL CONSIDERATIONS IN PAY FOR PERFORMANCE IN NSPS

BY

MS. ERIN J. FREITAG
Department of Army Civilian

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U.S. Army War College, Carlisle Barracks, PA 17013-5050

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Ms. Erin J. Freitag
Department of Army Civilian

Colonel Julie T. Manta
Project Advisor

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U.S. Army War College
CARLISLE BARRACKS, PENNSYLVANIA 17013

ABSTRACT

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The Department of Defense is implementing the pay for performance segment of the National Security Personnel System (NSPS). NSPS requires supervisors to pay employees based on performance in order to improve individual and organizational performance. Pay for performance requires managers and supervisors to make more distinctive evaluations of individual performance. Decisions supervisors make in evaluating performance impacts employees' salaries and future retirement earnings. Therefore, fairness and ethical considerations are inherent in successfully implementing a pay for performance system. This paper explores the importance of ethical considerations and examines the Army's training and development program for employees and supervisors to prepare for NSPS. While the Army executed aspects of NSPS well, it can improve implementation by developing a communication strategy, instituting an accountability system for supervisors to ensure fairness and open and continuous communication with employees and educating supervisors on "soft skills" in a classroom setting. These three efforts will support a perception of fairness by employees that supervisors will be held accountable for their implementation of NSPS.

FAIRNESS AND ETHICAL CONSIDERATIONS IN PAY FOR PERFORMANCE IN NSPS

To transform the way DoD achieves its mission, it must transform the way it leads and manages its people who develop, acquire, and maintain our nation's defense capability. Our civilian workforce is critical to the department's success and NSPS will provide a modern, flexible system to better support them.

— Deputy Secretary Of Defense Gordon England

The Federal Government remains fairly stagnant when it comes to sweeping changes in regulations and programs. Incremental changes occur, albeit slowly. In the civilian personnel systems, major changes were even fewer and farther between. In over 200 years only three major changes occurred in the civilian personnel or human resources arena. The first occurred when President Chester A. Arthur signed the Civil Service Act of 1883 into law thus doing away with the "spoils system". The Civil Service Act established the Civil Service Commission and Merit System Principles.¹ The second major change occurred with The Civil Service Reform Act (CSRA) of 1978. The act continued emphasis on merit system principles and created opportunities for federal agencies to experiment with more modern and innovative ways to motivate employees and significantly improve organizational performance. The CSRA established a Merit Pay System and created an appeal mechanism for protection of employee's rights among other major changes.²

The third and most dramatic, major change occurred in November 2003 when Congress passed the National Defense Authorization Act which authorized development of the National Security Personnel System (NSPS). NSPS is a human resources management system designed to assist the Department of Defense (DoD) to recruit and motivate high performing individuals. The intent of the National Security

Personnel System is to increase organization effectiveness through a streamlined, more flexible and mission-driven human resources management system.

The Department of Defense is in the midst of implementing the pay for performance, i.e. compensation system segment of the National Security Personnel System (NSPS). NSPS enables managers and supervisors to pay employees based on performance in order to improve individual and organizational performance. Pay for performance requires managers and supervisors to base rewards and compensation on employees' contribution to the organizational mission. Decisions managers make in performance evaluation and compensation impact employees' salaries and future retirement earnings. Because of this and inherent in implementing a pay for performance system are ethical considerations. This paper explores why ethical considerations are important for successful implementation of the performance management segment of the NSPS. It examines the training and development efforts the Army deployed to determine if they are adequate. Ultimately, this paper provides strategic leadership and training recommendations for managers to ensure success in implementing, evaluating and refining pay for performance under the NSPS. Three key recommendations are: 1) develop a communication strategy; 2) institute accountability for managers and supervisors; and 3) change the current training strategy regarding "soft skills" training.

Goals of NSPS

As part of DoD's transformation to a more responsive, agile military force and to meet the challenges of the global war on terrorism, civilian roles are expanding to include more participation in combat support functions to enable military personnel to

focus on war fighting duties.³ The Department of Defense cited a number of problems with the old system as a reason why Congress needed to act. The problems were:

- Current system is inadequate in managing DoD civilian personnel
- Hiring is too slow, causing an adverse effect on recruiting
- Outstanding performers are paid the same as poor performers
- Reassigning is too difficult
- Poor performers are not held accountable
- The current appellate system is complex, legalistic, and often too slow⁴

The Department of Defense developed the National Security Personnel System as an enhanced human resources management system to be more responsive to the national security environment and, in design, preserve employee protections and benefits. The intent was to change from a lengthy, paper intensive hiring system, to a flexible hiring process combined with streamlined position classification, coupled with pay banding to enable managers to attract and retain quality employees to perform the organization's mission. NSPS improves and allows flexibility in the way the Department of Defense recruits, compensates and rewards its employees. The National Security Personnel System's pay for performance concept uses a compensation strategy as a motivator and a way of linking performance with an organization's goals and mission. NSPS also permits a more constructive, issue-based system of labor-management relations and a streamlined approach to employee appeals. The system protects employees' rights through continued use of the merit system principles, accommodation of veterans' preference, and respect for bargaining.

History of Pay for Performance Compensation

The term pay for performance typically refers to a compensation strategy where performance of employees significantly influences the amount of pay increases or awards given to each employee. The U.S. Merit Systems Protection Board (MSPB) says pay for performance programs are successful when three things happen: 1) the “outstanding performers” are offered the greatest rewards to recognize their contributions and motivate them to continue or, better yet, increase their high performance; 2) the “average performers” receive smaller rewards to encourage them to work harder to achieve larger increases in the future; and 3) “poor performers” do not receive an increase of any amount to persuade them to improve their performance or leave the organization.⁵

For several decades, the Federal Government tried to tie pay to performance, albeit at a slow rate. The Performance Rating Act of 1950 linked pay and performance by restricting within-grade step increases to employees with satisfactory or better ratings. Similarly, the Federal Salary Reform Act of 1962 allowed managers to deny a within-grade increase for performance rated below an acceptable level and allowed granting an additional step increase for high-quality performers.⁶ The Civil Service Reform Act of 1978 established the Performance Management and Recognition System (PMRS), or better known as “Merit Pay”, which prescribed pay increases would be linked to an employees’ performance rather than to length of service inherent with the General Schedule (GS) system of within-grade increases. The lessons learned from PMRS will be discussed later.

The roots of new pay systems began in private industry in the early 1980s. Many organizations struggled to maintain a competitive edge and increase profits. They

turned to restructuring and laying off employees to survive. However, they found they could not survive or gain a competitive edge by laying off employees and restructuring alone. Many organizations moved away from traditional pay systems that did not produce an increase in employees' morale, loyalty and productivity.⁷ In today's challenging environment, the need to use compensation and pay strategically is more important than ever as leaders look for ways to improve outcomes, performance, productivity, and teamwork. Linking rewards to the organizational missions and goals is essential for optimal organizational effectiveness.⁸

NSPS Performance Management

The focus of the National Security Personnel System is the performance management and pay for performance components. Both performance management and pay for performance focus on three basic tenets: performance, accountability, and flexibility. Managers must clearly communicate to employees what they expect of them and employees need to know how what they do supports the overall mission and strategic goals. An unspoken component of this process is that employees must have confidence and trust in their managers' ability to recognize and distinguish levels of performance. When employees are held accountable for their performance they should expect managers to make decisions regarding salary increases or performance awards based on the employee's performance and contribution to the mission. While employees are held accountable for their performance, managers and supervisors are accountable for communicating with employees during every step of the process.

The Army's previous performance management system, the Total Army Performance Evaluation System (TAPES), required managers to evaluate employee's

performance based on objectives.⁹ However, the author's observations are that objectives were typically position based and not necessarily aligned with the organizational mission and goals. NSPS goes one step further by requiring managers to align employees' individual performance objectives to organizational goals and objectives. Because managers must discuss with employees how mission and goals align with performance objectives and performance expectations, there is a clear line of sight as to how the employee's performance eventually makes a difference in meeting Department of Defense's mission.

The Army's performance management process under NSPS is results-oriented and mission focused. Five main phases are in the process:

- Performance Planning – establishment of organizational mission, goals and objectives and individual performance objectives
- Performance Monitoring – continuous employee and supervisor communication
- Performance Development – training and development, mentoring
- Performance Rating – ratings on objectives, contributions to the mission and contributing factor ratings
- Performance Rewarding – supervisors' recommendation to the pay pool panel on award and/or salary increase¹⁰

All phases in the performance management process are critical, however, the planning phase - establishment of results-oriented job objectives aligned to an organization's mission is vital. Job objectives are the core of the National Security Personnel System performance management system and, therefore, play a critical role

in the successful implementation and execution of NSPS. During the planning phase, the supervisor and employee discuss performance expectations, develop objectives, identify contributing factors and discuss alignment to the organization's goals and mission. Supervisors must have a clear understanding of leadership expectations on the work unit supervised before establishing job objectives for employees. The job objectives of employees drive organizational performance and accomplishments and must be results-oriented. The Army prescribes use of the "SMART" rubric as the basis for development of performance objectives: "Specific, Measurable, Aligned, Realistic/Relevant, and Timed".¹¹

It is important that supervisors develop job objectives that define an employee's expected performance and are clearly aligned from the Army down to the command and individual levels to understand how their performance contributes to the organization's mission. A clear line of sight and alignment must be evident from the individual employee's performance goals to the Army and an organization's strategic plans and mission requirements. Figure 1 depicts the alignment of the individual and team performance goals to Army's Strategic Plan.



Figure 1: Objectives Link to Mission¹²

Once supervisors develop objectives, they select contributing factors which are work attributes and behaviors an employee can demonstrate during the accomplishment of a job objective. There are seven key contributing factors in assessing employee performance and influence the final rating - - “technical proficiency, critical thinking, cooperation and teamwork, communication, customer focus, resource management, and leadership”.¹³ A difference in NSPS is that contributing factors were not used in the previous performance management system as they were seen as behavioral attributes and were addressed under disciplinary rules and regulations. Certain attributes or contributing factors, such as cooperation and teamwork, are important in meeting the mission and espousing the Army values. As an example, an employee may have accomplished an objective by producing an outstanding report. However, if he or she did so at the expense of others, they could be marked down in teamwork as a contributing factor for that objective. The contributing factors play a key role in ensuring the Army values are at the forefront and emphasize the importance of them in accomplishing day to day operations.

The monitoring phase requires ongoing feedback and communication between a supervisor and an employee about how well an employee is performing. Typically an employee will do a self-assessment which serves as the basis of discussion for the supervisor, particularly if there are differences in perceptions in what was accomplished or how it was accomplished or how the accomplishments contributed to an organization’s mission. During this phase a supervisor makes adjustments to the performance objectives as well as areas for improvement and any development and training needs. The requirements document for NSPS states that the performance

management system must include a fair, credible, and transparent performance system, timetables for review of employee performance and dialogue between employees and supervisors with ongoing feedback.¹⁴ It is evident, therefore, that the monitoring phase be accomplished to meet the National Security Personnel System requirements.

The rating phase commences with an employee providing a self-assessment. The self-assessment includes the results the employee accomplished and how their results contributed to the organization's mission and goals. The author's observations during the implementation of this phase is that it proved to be very challenging for employees – not so much in communicating the accomplishments in their self assessment but more in communicating "how" the results affected the overall mission of the organization. Since an employee's overall rating will affect their compensation, neither the employee nor the supervisor can take the rating phase lightly. As a result, the supervisor assigns an overall rating and makes a recommendation to the pay pool panel shares and payout.¹⁵ It is important for Army managers and supervisors to understand the pay pool process for the National Security Personnel System because it is a new concept most managers and supervisors were not exposed to in their careers.

NSPS Pay for Performance (Pay Pool Process)

The goal of pay for performance is to increase organizational performance by rewarding those who produce the results and contribute more to the organization's mission. Organizations must build safeguards into the system, such as the pay pool panel, to ensure the organization realizes the goal of pay for performance. Under NSPS, compensation and awards are dependent upon an employee's performance and contributions to the overall organizational mission. Pay pool managers and panel

members are involved in executing the organization's compensation strategy.¹⁶ Ensuring compensation is used strategically to attract, retain, and reward the workforce is a leadership responsibility.¹⁷ Under NSPS, an organization uses a pay pool concept to manage, control, and distribute performance-based pay increases and bonuses. Pay pool panels help to ensure fairness and consistency in performance ratings, shares, and payout distributions. Pay pool panels meet to reconcile the recommendations of individual rating officials who may have varying levels of understanding of the NSPS performance management process, especially the link between pay and performance.

The pay pool process preserves the integrity of the NSPS performance management system by ensuring a higher level review above the immediate supervisor takes place and that discussions regarding meaningful distinctions on performance are made based on the overall contribution to the mission. Employees need to trust that their supervisor provided a fair and accurate assessment of their performance, in addition to being treated fairly and equitably by the pay pool panel. This fairness reinforces trust between employees and managers/supervisors. The pay pool process provides a structured way to preserve the integrity of the performance management system, ensures that a higher level of review of management decisions and ensures employees receive equitable consideration.¹⁸

NSPS Training and Communication Strategy

The Department of Defense and each of its service components, the Army, Navy, Air Force, Marines, developed an extensive communication and training strategy because NSPS is a significant change in many aspects of human resources management. Not only is NSPS a change for employees, but it is also a change for

leaders, managers and supervisors who supervise civilian employees. NSPS technical and soft skills training and communication are key activities of the supporting infrastructure necessary for success. Organizational leaders, managers, supervisors and employees, as well as human resources and resource management staff, play a critical role in communication and obtaining the training needed for implementation.

The communication strategy for NSPS consisted of a two-part approach – verbally and in writing. Commanders and senior leaders of the implementing organizations held town hall meetings to discuss the changes and the importance of NSPS. Additionally, Department of Defense and the respective services developed and used a variety of written media such as brochures, pamphlets, newsletters, frequently asked questions, briefing materials, policies, regulations and “how to’s.” DoD and each service developed and posted information on their respective websites which was accessible by employees, managers and supervisors. DoD employees were also given an opportunity to ask questions either verbally or through an online system. Finally, leaders at all levels were expected to consistently communicate with supervisors and employees alike.

Military and civilian managers, employees, human resources staff, pay pool administrators and resource management staff must receive training and retraining in change management and the “soft skills” associated with performance management and pay setting, as well as in aspects of NSPS policy, performance management, and operations in order to properly implement NSPS.¹⁹ The Army developed a multifaceted training strategy to prepare employees and managers to understand and effectively execute the provisions of NSPS. The Army requires employees, supervisors and

managers who supervise civilian employees to attend in-house classroom training. The Army's training strategy also includes a series of web-based training and videos.

The Army required civilian employees transitioning to the National Security Personnel System to attend one day of classroom training. The Army also requires managers and supervisors to attend classroom training called "Human Resources for Managers and Supervisors," and complete NSPS supervisory training in order to be certified as rating officials under the National Security Personnel System. Similarly, management officials involved in the pay pool panel process must attend classroom training on Pay Pool Management. In addition to acquiring a basic knowledge of NSPS goals, regulations and processes, the Army developed several courses to complement the technical aspects of NSPS with "soft skills" training. Implementation of the National Security Personnel System (NSPS) required that supervisors, managers and employees not only have a basic knowledge of NSPS regulations and processes, but also possess the core competencies needed to successfully transition to and thrive in the new environment. The Army identified four core competencies as being essential for successful NSPS implementation.

- "Ability to deal with change"
- "Skill in interpersonal communications"
- "Ability to coach and counsel employees"
- "Ability to achieve results"²⁰

The Army provides courses on the "soft skills"²¹ through web-based training. Training courses such as Change Management, Interpersonal Communication, Listening, Coaching and Counseling, How to Motivate a Team, and others are provided

in an online format. Unfortunately, courses taken via the web are difficult to evaluate and measure mastery of the learning objectives by the trainee. It is generally accepted that knowledge can be measured through testing. However, mastery of a soft skill is difficult to measure online. For example, for a course about listening skills an online test can measure the knowledge gained but it is difficult to measure mastery of listening skills without personal interaction and communication. Web-based or online training has inherent limitations beyond technological challenges. One of these is the inability to teach soft skills effectively.²²

Lessons Learned from Pay for Performance Systems

In October 2005 the Office of Personnel Management (OPM) published *Alternative Personnel Systems in Practice and a Guide to the Future*. The document reviewed and discussed various demonstration projects on alternative pay systems and lessons learned. The study concluded that the highest paid performers were paid the most with results varying from 20% - 40%. Employees perceived there to be a much greater linkage to pay and performance.²³ OPM suggests that trust, communication and leadership are critical factors in the success of demonstration projects. A positive correlation existed between effective communication with demonstration project support, satisfaction with performance management, perceptions of fairness, and organizational commitment.²⁴ The Office of Personnel Management found that when leaders engage the organization at all levels and establish safeguards in the process, the objectives of pay for performance are realized – better performers get higher pay.²⁵ Agencies can control costs and compete for and retain high performers resulting in an

effective performance management system which makes meaningful distinctions and supports the organizations mission.²⁶

The Office of Personnel Management developed the Performance Management and Recognition System (PMRS) in 1984 to replace the Merit Pay System to improve the system by offering lump-sum cash awards to recognize and reward exceptional performance.²⁷ A Government Accounting Office (GAO) study reported that nonperformance-related factors which caused inequities under merit pay continued to exist in PMRS and resulted in performance awards amounts that varied considerably for employees with the same grades and performance ratings.²⁸ In addition, another GAO review reported that personnel officials thought most performance ratings were inflated because supervisors did not want to hurt their employees' chances for promotion, receipt of an incentive award or pay increase or retention during a reduction in force (RIF). Similarly, in a 1992 OPM survey, 61 percent of the employees agreed with the statement that, in general, employees receive a higher performance rating than they deserve.²⁹

The GAO further found that PMRS participants believed performance was not a major factor in determining who received performance awards. Participants did not believe that communication about performance standards and feedback about job performance improved as a result of PMRS.³⁰ Although the regulation prohibited agencies from prescribing a forced distribution of performance ratings, 68 per cent of employees' supervisors responded they were pressured to distribute their ratings in a prescribed manner.³¹ Participants stated some managers dealt with pressure to have forced distribution by limiting the number of high ratings and rotating who received

them. Several participants said their supervisors told them they were outstanding but it wasn't their turn to receive a high rating.³²

One flaw in the PMRS was that performance ratings were used for multiple purposes which created inflated ratings on the part of managers and confusion on the part of employees particularly when they received a high rating but no monetary award. The majority of employees and supervisors thought the awards were too minuscule to serve a motivational purpose. Supervisors also experienced challenges when it came to distinguishing consistently and fairly among the varying levels of performance.³³ One positive aspect of PMRS was that the communication of expectations by supervisors was one of the most successful aspects of PMRS with almost 75 percent of employees stating they knew what was expected of their performance.³⁴ The design and intent of PMRS was not necessarily flawed. However, the implementation and execution were flawed by managers and supervisors who created a negative effect by not distinguishing among the varying levels of performance.

A 1998 Woodward study of eighteen organizations that developed alternative personnel systems for hiring, promoting, compensating and dismissing employees found that the concept of merit did not appear to be understood as a foundational or driving value. Rather, fairness and equity were the key values underlying the design and execution of their human resources management systems.³⁵ Woodward found that the values of fairness and equity are linked to most discussions on designing, evaluating or litigating federal human resources management programs and policies. While oversight and accountability are essential, the mechanisms should not produce unnecessary roadblocks that limit management flexibility. Managers and supervisors must be

educated about how to be fair and equitable in their assessment of performance and decisions on compensation.³⁶

Common Flaws with Pay for performance

Dr. Edward Lawler, a recognized expert in pay and performance management focuses on the theory that most managers are usually to blame. Typically supervisors do not up communicate clearly what they expect nor can they accurately assess and communicate that assessment. Additionally, managers are not good at explaining how an individual's performance led to an increase or no increase in compensation. In turn, employees do not trust the manager; the line of sight does not exist. As a result there is neither motivation nor reinforcement of the performance and behaviors the manager wants to retain.³⁷

Lawler criticizes Jack Welch of General Electric (GE) because Welch talks of his highly publicized GE forced-distribution approach as one of his crowning achievements. Lawler believes the opposite and calls the forced-distribution approach an “admission of total failure.” He believes a forced-distribution approach to be a failure of leaders and managers not doing their job of disciplining and training their supervisors to evaluate employees’ performance relative to a standard of measurement and make meaningful distinctions.³⁸

Factors Critical for Successful Pay for performance Systems

Matt Bloom cites research on organizational justice as important to understanding the non-economic effects of compensation systems (Folger and Cropanzano, 1998; Greenberg and Cropanzano, 2001).³⁹ Fair compensation systems are a reflection of an organization’s value. Fairness ensures things work right and that the explanations

behind the way things work are morally acceptable and ethical (Cropanzano et al., 2001).⁴⁰ The bottom line is that people aspire to be a part of organizations they see as just, moral even virtuous (Folger and Cropanzano, 1998; Greenberg and Cropanzano, 2001).⁴¹ Based on their research fairness is a critical component of a well-designed compensation system.⁴² Bloom further explains that people will accept and even be satisfied with decreases in pay if they were determined in a just manner (Turillo et al., 2002).⁴³

Trust impacts pay for performance programs in two ways as Michael J. Vest, and other researches suggest. Employees must trust in supervisors in the formal performance appraisal process (Fulk, Brief, & Barr, 1985) and trust must be present in the compensation process. He suggests that high levels of trust are required for programs to not only be accepted but more importantly, to have the intended impact on organizational performance.⁴⁴

In their document, *Recommending Performance-Based Federal Pay*, the National Academy of Public Administration (NAPA) prescribes nine elements as essential for an effective performance-based compensation system:

- Ownership of performance management by supervisors
- Training for managers and employees
- Commitment by top leadership
- Performance objectives driven by organization's strategy
- Continuous feedback from managers
- Use of competencies, development, and evaluations of how individuals achieve results

- Links between rewards and performance ratings
- Meetings for managers to compare and level ratings
- Technology to integrate performance management.⁴⁵

Sylvie St-Onge prescribes five key elements necessary for an effective performance-based compensation program. First, managers should properly and frequently communicate to employees to outline the program, explain their decision making processes and take ownership. Second, managers must be capable and motivated to evaluate performance and distribute compensation based on what is really accurate, reliable and credible. Third, managers should respect procedural justice and integrity in decision-making since they influence perceptions of pay for performance. Fourth, managers must develop a climate of trust since it positively affects perceptions. And fifth, managers must be aware that *satisfaction* with expected outcomes and how they are presented can positively affect perceptions.⁴⁶

In a recent written testimony to the House Committee on Oversight and Government Reform, Max Stier, President and Chief Executive Officer of the Partnership for Public Service, believes that for performance-based compensation systems to succeed there are three critical elements or a “trilogy of ideas” – fairness, credibility and transparency.⁴⁷ The issue of fairness is a common element identified by leading experts analyzing pay for performance systems as described further.

As the leading expert, Ed Lawler believes that the role of a champion is critical – however, he cautions that the champion or leader should not be human resources personnel. The performance-based compensation program must be championed by the

top management of the organization, to communicate what the program entails, what is in it for employees and why it is important to the overall success of the organization.⁴⁸

Larry Axline, Managing Director and C.O.O. Holt Consulting Services, Inc. and a publisher of performance management evaluation, suggests that being “legal” is not enough in performance assessments. Being “legal” does not always equate to being “ethical.” Managers should provide an honest assessment of employees’ performance. He says that ongoing feedback and communication is needed to answer several questions: What is the mission of the organization? What is valued? What contribution is expected of the employee? Managers must provide honest communication on all questions for trust to occur in the process⁴⁹

The Government Accountability Office (GAO) recommended training on leadership, management, and interpersonal skills to facilitate effective communication. GAO also found that training employees and managers on setting expectations, linking individual performance to organizational results and effectively giving as well as receiving feedback were essential for an effective performance-based compensation system.⁵⁰ Similarly in February 2008, in written testimony to the House Committee on Oversight and Government Reform, Honorable Russell George, Treasury Inspector General for Tax Administration identified that organizations implementing pay for performance must plan sufficient time to educate managers.⁵¹

The Merit Systems Protection Board (MSPB) identified several factors critical to a successful pay for performance program. First, the culture of the organization has a major impact on effective implementation of a program. Thus, leadership commitment, open communication and employee trust of supervisors and leaders are paramount.

Likewise, effective supervision is crucial to a pay for performance program. Supervisors must treat employees fairly and provide continuous feedback on performance. MSPB also determined that fairness was a factor for success. A pay for performance program must have a system of checks and balances and pay and awards distribution must be in line with contributions and performance.⁵²

In a 2003 paper on performance pay in European countries, an Italian research organization (Dipartimento della Funzione Pubblica) cited several of the same factors necessary to overcome the difficulties and secure early success. Of utmost importance is the need for good communication. Training is another factor considered crucial to success both to employees and the managers. The linking of the strategic goals of the organization to the pay for performance goals is considered one of the most important factors in order to have a successful program.⁵³

The Office of Personnel Management (OPM) in December 2007 published a status report about demonstration projects and other performance based systems. OPM stated that implementing a pay for performance system requires commitment, communication and training to be successful.⁵⁴ They also found that pay for performance systems require accountability for managers to make meaningful distinctions across levels of performance.⁵⁵ OPM supports many other organizations in the field by emphasizing that trust is essential for the success of a pay for performance system.⁵⁶

Areas Requiring Emphasis to Improve the System

The basic premise underlying this research paper was that fairness and ethical considerations and actions by leaders, managers and supervisors were absolutely

necessary to have a successful performance based compensation program. Research and literature on ethical considerations in pay for performance was limited. However, tangentially, most of the research and literature touched on ethical considerations if one presumes that issues of fairness, trust, accountability, honesty and doing the right thing are subsets of ethical considerations.

The fundamental objective of a pay for performance system is to improve organizational performance. Conceptually a link between pay and performance has positive support in private industry as well as in the public sector. The DOD designed a performance based compensation system out of a need to increase organizational performance and to attract and retain highly motivated and skilled employees. Inherent in the design and implementation of a pay for performance system are many of the factors that research and human resources literature have shown to be essential for implementing a successful program.

The DOD and the Army incorporated an extensive communication strategy with numerous brochures, town hall meetings, and ensured information flowed through channels to employees. Development of a large number of training courses was accomplished. The training incorporated both soft skills training as well as technical training not only for managers and supervisors but also employees. Managers had mandatory training which was tracked by the heads of the organizations.

While the DOD and the Army executed many actions and processes correctly with the design and implementation of a pay for performance system, from a strategic level, the literature and research suggests areas for improvement and refinement. The Army should establish a communication strategy that includes lessons learned from the initial

implementation of the pay for performance segment of NSPS. Part of the communication strategy should include steps the Army will take to hold leaders, managers and supervisors accountable for fair performance assessment and recommendations of compensation based on employees' contribution to the organization's mission. Managers and supervisors should also be educated on how to be fair and equitable in their assessment of performance and decisions on compensation. This is not an easy task and most certainly, should not be done through web-based training.

The Army developed and made available a numerous training courses. However, the "soft skills" training is mostly available only through web-based training. Mary Lacey, Program Executive Officer (PEO) for NSPS, stated "Many of our supervisors have allowed their soft skills to get rusty over the years." She further indicated that training soft skills is more difficult and requires face-to-face interaction and generally does not work well on the web.⁵⁷ The challenges facing supervisors in a pay for performance system are numerous and the Army must take measures to prepare them. Development and execution of classroom training on the "soft skills" should be incorporated in the training strategy.

Additionally, a checks and balance system of higher level review is a key element in the performance management and pay pool management segments. This is to ensure fairness and equity in the process. Managers, supervisors and pay pool panel members must ensure that employee's compensation is directly tied to their contributions to meeting the organization mission. A strategy should be developed to ensure leaders of organizations have oversight of the process. The Army cannot afford

to use the practice from the old “merit pay” system of it’s not your turn yet or worse yet give everyone the same rating thereby diluting the amount given. As indicated by the research, it is critical employees not only trust their supervisors to evaluate their performance fairly but also the pay pool panel process as well.

Conclusion

The Army is facing critical human resources challenges with the design and implementation of the National Security Personnel System. The Army and DoD executed many aspects of NSPS very well. Implementing the three key recommendations in this paper of: 1) developing a communication strategy; 2) instituting accountability for managers and supervisors with to ensure fairness, and open and continuous communication to employees; and 3) educating managers and supervisors on “soft skills” training in the classroom will increase the probability of success and momentum with the pay for performance compensation segment of the National Security Personnel System. These recommendations will ensure employees perceive the NSPS system as fair and equitable and that managers will be held accountable. Both of these elements are key to a successful compensation program.

Endnotes

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